REPORT OF EXAMINATION

OF THE

MUNICH REINSURANCE AMERICA, INC.
(formerly known as American Re-Insurance Company)

AS OF

DECEMBER 31, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

MUNICH REINSURANCE AMERICA, INC.
(fka American Re-Insurance Company)

is a true and correct copy of the document filed with this Department.

ATTEST BY: ______________________________

DATE: 25 JUNE 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 25TH DAY OF JUNE 2007.

Insurance Commission of the State of Delaware

Liberty and Independence

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Insurance Commissioner

REPORT ON EXAMINATION

OF THE

MUNICH REINSURANCE AMERICA, INC.
(fka American Re-Insurance Company)

AS OF

December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

Matthew Denn

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 25TH Day of JUNE 2007.

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SALUTATION

June 27, 2007

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
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Richmond, VA 23218

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841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06.005, dated January 26, 2006, an Association examination has been made of the affairs, financial condition and management of the

MUNICH REINSURANCE AMERICA, INC.

hereinafter referred to as “Company”, “Munich Re America” or “MRAm” and incorporated under the laws of the State of Delaware as a stock company with its home office located at 2711 Centerville Road, Suite 400 Wilmington, Delaware 19808. The examination was conducted at the main administrative office of the Company located at 555 College Road East, Princeton, New Jersey 08543. The Company was formerly known as American Re-Insurance Company

(American Re or Am Re). On September 5, 2006 the Company legally changed its name to Munich Reinsurance America, Inc. The examination has elected to utilize the current legal name of the Company for the purposes of this Report of Examination.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2002. This examination covers the period since that date through December 31, 2005, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc performed an information systems review.

This examination ran concurrently with the examinations of two Delaware domestic affiliated insurers American Alternative Insurance Corporation (AAIC) and The Princeton Excess and Surplus Lines Insurance Company (PESLIC).

In addition to items hereinafter incorporated as a part of the written report, the following areas were checked and made part of the files of this examination.

Fidelity Bonds and Other Insurance
Statutory Deposits
Employees' Welfare
All Asset and Liability Items not mentioned

HISTORY

MRAm was originally incorporated in the State of Pennsylvania on March 15, 1917, and began business as a casualty reinsurer on April 2, 1917. The Company subsequently changed its state of domicile twice, to New York on July 25, 1933, and then to Delaware on January 1, 1978.

Aetna Life and Casualty Company (Aetna) acquired the Company in May 1979 pursuant to a cash tender offer for all of the Company's shares and continued as the Company's ultimate controlling parent until 1992. At the direction of Kohlberg Kravis Roberts & Co., LP (KKR), an investment firm, and certain members of American Re management, American Re Corporation (name changed on September 5, 2006 to Munich Re America Corporation "MRAC") was organized to acquire MRAm from Aetna. The acquisition was consummated on September 30, 1992 pursuant to a stock purchase agreement dated as of June 8, 1992.

On August 13, 1996, MRAC, entered into an Agreement and Plan of Merger with Munchener Ruckversicherungs-Gesellschaft Aktiengesellschaft ("Munich Re Munich" or "MRG"- a company organized under the laws of Germany) and Puma Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of MRG. Pursuant to the terms of the

Merger Agreement, on November 25, 1996, following approval of the merger by MRAC's stockholders and applicable regulatory authorities, Puma Acquisition Corporation was merged with MRAC with the latter being the surviving company.

During July 1997, MRAC and MRG completed the merger of Munich American Reinsurance Company ("MARC"), the US operations of MRG. At that time, the insurance assets and liabilities of the U.S. branch of MRG were also transferred into MRAm. After the merger, MRG's ownership of MRAC stood at 91%. The remaining outstanding shares in MRAC were acquired from Victoria Versicherung AG in 1998 and from Allianz Aktiengesellschaft in 1999, bringing MRG's ownership interest in MRAC to 100%.

Munich-American Holding Corporation ("MAHC"), a Delaware Holding Company, was organized in September 2000. After regulatory approval, MRG contributed all of the issued and outstanding stock of MRAC, and therefore its subsidiaries, to MAHC.

No changes in ownership occurred during the current examination.

CAPITALIZATION

Common Capital Stock

The Certificate of Incorporation, as amended, provides that the authorized capital stock of the Company shall be 6,000,000 shares of $1.50 par value per share. At December 31, 2005, 5,490,514 shares were issued and outstanding. All issued shares were owned by MRAC.

Dividends

There were no stockholder dividends paid in 2003, 2004 or 2005.

Surplus Paid In

During the examination period the Company received the following surplus paid in from MRG and MRAC:

2003-	$ 350,000,000
2004-	-0-
2005-	1,108,000,000
Total-	$ 1,458,000,000

Both contributions were in the form of cash.

The surplus contribution made in 2003 was made for the purpose of bringing the Company's policyholders' surplus above the $3,000,000,000 mark. During 2002 (in the prior examination period), the Company experienced a significant net underwriting loss as a result of a large reserve increase that occurred during the second quarter of 2002. The reported net loss for 2002 was ($1,778,567,794). During 2002 and 2003 MRG and MRAC made surplus contributions totaling $1,766,369,932, which included the $350,000,000 made in 2003 (during the current examination period). These contributions offset over 99% of the 2002 net loss.

The surplus contribution made in 2005 was completed for the purpose of offsetting the income statement impact of another significant reserve strengthening that occurred in 2005. This strengthening occurred immediately prior to the Loss Portfolio Transfer Agreement between MRAm and MRG. The Company entered into a Loss Portfolio Transfer Agreement (LPT) with MRG whereby, MRAm transferred 100% of most business to MRG for accident years 2001 and prior. Corresponding with the LPT was a detailed reserve review that resulted in significant reserve increases on the subject business. The end result caused a net loss of $1,401,010,712. The surplus contribution of $1,108,000,000 offset all but $293,010,712 of the 2005 net loss. *See Reinsurance for additional details on the Loss Portfolio Transfer Agreement.*

MANAGEMENT AND CONTROL

Stockholders

In accordance with Article I, Section 1 of the Company's bylaws, the annual meeting of the stockholders shall be held during the months of March or April of each calendar year, on a date and place as the Board of Directors may prescribe. The quorum for each meeting of the shareholders shall consist of a majority of the voting power of shares entitled to vote at such meeting. Special meetings of the shareholders may be called by the Board of Directors, the Chairman or the President. As previously noted, the Company has only one stockholder.

Board of Directors

The Company's amended Certificate of Incorporation provides for the Company to be managed by a Board of Directors. Article II, Section 1 of the Company's bylaws stipulates that the Board of Directors shall consist of not less than three members nor more than twenty-two Directors as determined from time to time by the Board of Directors.

Regular meetings of the Board shall be held at such place and on such day at such periodic intervals as the Board may designate. A quorum shall consist of a majority of the directors, but not less than two directors.

At December 31, 2005, the members of the Board of Directors, together with their principal business affiliation, were as follows:

Name	**Principal Business Affiliation**
John P. Phelan	Chairman, President and CEO Munich Reinsurance America, Inc.
Albert J. Beer (1)	Executive Vice President Munich Reinsurance America, Inc.
Wolfgang R. Engshuber	Executive Vice President Munich Reinsurance America, Inc.

(1) Albert J. Beer resigned as a director of the Company effective September 1, 2006. Subsequently, Murray Steven Levy and Robin Harriet Willcox, both officers of the Company at December 31, 2005, were elected as members of the Board of Directors.

Committees

Article III of the bylaws states that there shall be an Executive Committee consisting of not less than two Directors; a Finance Committee consisting of not less than two Directors and additional Committees of the Board, as the Board deems necessary or appropriate to carry out the functions and responsibilities of the Company.

The Company maintains a Finance Committee as elected by the Board of Directors; however, the Company has not appointed an Executive Committee as required by the bylaws. As such;

It is recommended that the MRAm Board of Directors appoint an Executive Committee of the Board in accordance with the bylaws, or amend the bylaws to remove this requirement. Any actions of the Directors acting as an Executive Committee should be documented in the minutes.

The minutes of the meetings of the Board of Directors reveal that the Company maintains a committee known as the Risk Management Committee (RMC). The RMC has significant influence in the underwriting direction of MRAm. The RMC is responsible for determining underwriting authorities and limits. The examination noted that the Board of Directors in accordance with Article III, Section 3 of the bylaws had not appointed this committee, which is made up of members and non-members of the Board of Directors. This concern was presented to the Company during the course of the examination. Subsequently, the Company resolved this concern by officially chartering the RMC as a committee of the Board that reports directly to the Board.

Officers

Article IV, Section 1 of the Company's bylaws states that elected officers of the Corporation shall consist of a President, elected from their own number, and a Secretary appointed by the Board of Directors. The Board of Directors may also appoint one or more Executive Vice Presidents. Any two or more offices may be held by the same person, except the offices of President and Secretary.

Article IV, Section 2 of the bylaws states that the President, as the chief executive officer of the Company, shall be responsible, under the direction of the Board, for the general supervision, management, direction and control of the general operations of the Company and is provided with the authority required to perform such duties.

At December 31, 2005, the principal officers of the Company were as follows:

Name	**Title**
John P. Phelan	President and Chief Executive Officer
Albert J. Beer (1)	Executive VP and President of Strategic Business Units
Wolfgang Engshuber	Executive VP and President of Corporate Centers
Dominic J. Addesso	Senior VP and President of MRAm Direct Treaty
Kevin D. Davidson	Senior VP and President of MRAm Direct Facultative
Jeffery W. Davis (2)	Senior VP and Chief Actuary
Anthony J. Kuczinski	Senior VP and President of Munich American RiskPartners
Murray Steven Levy	Senior Vice President and Chief Financial Officer
Stephen J. Morello	Senior VP and Chief Underwriting Officer
George Roberts	Senior VP and President of MRAm Broker Markets
John W. Rodgers	Senior VP and Chief Claims Officer

Philip Roeper	Senior VP and Chief Information Officer
Melissa A. Salton	Senior VP and Chief Results Monitoring and Reporting Officer
Robin Harriet Willcox	Senior VP, General Counsel and Secretary

(1) Albert J. Beer resigned as Executive VP and President of Strategic Business Units (SBU) on September 1, 2006. Mr. Beer was not replaced. Those officers and employees previously reporting to Mr. Beer in his capacity as President of the SBU's now report directly to John P. Phelan, President and Chief Executive Officer.

(2) Mr. Davis is no longer with the Company.

Conflicts of Interest

The Company maintains a formal written conflict of interest policy, which officers, directors, and all key employees of MRAm must fill out on an annual basis. The Policy Statement on Conflicts of Interest requires the disclosure of possible conflicts of interest on the part of officers, directors and employees whose positions are such that they exercise judgments or make decisions which may be influenced so as to result in a conflict of interest. The review of the conflict of interest questionnaires completed during the examination disclosed no conflicts of interest that appeared to adversely affect the Company.

Bylaws

A review of the Company's bylaws revealed that no changes were made during the examination period.

Corporate Records

The Company's corporate records were reviewed for the period under examination. No exceptions were noted in addition to the recommendations previously disclosed in this Report of Examination.

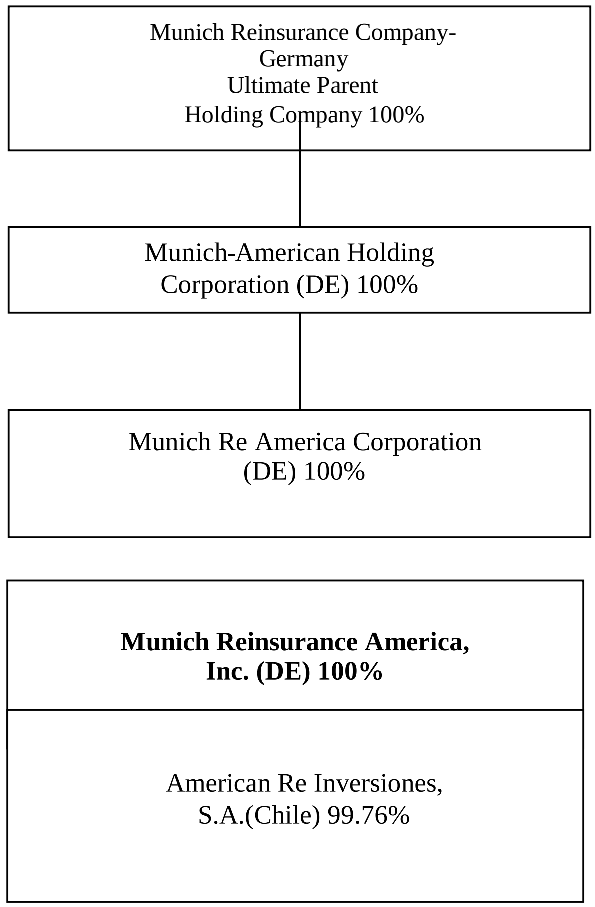
HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. The Holding Company filings have been made pursuant to the Insurance Company, Holding Company System Registration provisions of 18 Del.C. §5004. The immediate parent of the Company at December 31, 2005 was MRAC. MRAm's ultimate parent is Munich Re Munich, which reported the following financial results as of December 31, 2005. The amounts below, which are in US dollars, were converted from the Euro at the December 31, 2005 conversion rate of $1.259:

Assets	$275,000,000,000
Equity	31,000,000,000
Net premiums written (2005)	45,600,000,000
Gain from Operations (2005 pre-tax)	5,200,000,000

The following presentation of the holding company system, as of December 31, 2005, reflects only the identities and interrelationships between the Company, its subsidiary, and its parents including direct, intermediary and ultimate.

Organizational Chart as of December 31, 2005



In addition to the above, MRAm has two affiliated insurance entities, which are domiciled in the State of Delaware. The affiliates are American Alternative Insurance Corporation (AAIC) and The Princeton Excess and Surplus Lines Insurance Company (PESLIC). Examinations of AAIC and PESLIC ran concurrently with the examination of MRAm.

A review of the annual *Form B* and *Form C* filings made by MRAm for all years under examination revealed that the Company had complied with the requirements of Delaware Regulation 13.

GROWTH OF THE COMPANY

The following information was extracted from the Company's Annual Statements as filed with the Delaware Insurance Department for each year indicated.

Year	Net Admitted Assets	Surplus as Regards to Policyholders	Assumed Premiums Written	Net Premiums Earned	Net Income/(loss)
2005	$17,160,846,547	$3,041,384,074	$3,403,185,754	($4,779,533,806)	($1,401,010,712)
2004	15,486,057,926	3,304,677,995	3,889,923,969	1,779,478,887	259,046,882
2003	16,029,476,095	3,271,462,547	4,256,620,842	1,563,155,445	419,986,020
2002	14,342,065,859	2,230,032,341	4,776,793,168	1,089,326,383	(1,778,567,794)

The decrease in net premiums earned in 2005 was due to the Loss Portfolio Transfer (LPT) Agreement between MRAm and MRG, covering all accident years 2001 and prior. The significant negative net loss reported in 2005 was the result of the significant reserve strengthening that took place in 2005, immediately prior to the LPT (as previously discussed). See Ceded Reinsurance for additional details.

Policyholders' surplus decreased ($263 million) in 2005. The significant net loss was tempered by surplus contributions amounting to $1.1 billion, all in the form of cash. For the examination period, surplus increased $811 million as a result of surplus contributions in 2003 and 2005 along with net income amounting to $679 million for 2003 and 2004.

Following is a reconciliation of capital and surplus for the period under examination:

Policyholders' Surplus, December 31, 2002	$2,230,032,341
Net income	(721,977,810)
Net unrealized capital gains or (losses)	285,826,860
Change in net unrealized foreign exchange	(130,576,889)
Change in net deferred income tax	186,282,280
Change in non-admitted assets	(233,851,836)
Change in provision for reinsurance	(5,470,431)
Cumulative effect of changes in accounting principles	(64,916,956)
Surplus adjustments: Paid in	1,458,000,000
Aggregate Write-ins for gains in surplus	38,036,515
Policyholders' Surplus, December 31, 2005	$3,041,384,074

TERRITORY AND PLAN OF OPERATION

Territory

The Company is a leading property and casualty reinsurer providing coverage to insurance and reinsurance companies. As of December 31, 2005, the Company was licensed to write insurance and reinsurance business in all fifty states, the District of Columbia, Puerto Rico, Canada, the United Kingdom and Australia.

The Company writes most of its treaty business through its home office in Princeton, New Jersey. The Company also maintains 12 domestic branch offices: Atlanta, Boston, Chicago, Columbus, Dallas, Hartford, Kansas City, Los Angeles, New York, Philadelphia, San Francisco and Seattle. These branch offices primarily write facultative business.

Subsequent Event

In late 2006, the Company decided to close four of its branch offices in order to reduce duplication of costs and streamline the Company's branch operations. The offices slated to be closed were Seattle, Dallas, Boston, and Los Angeles.

The Company reported $0 in direct premiums written in these jurisdictions and it has not written any direct business in the United States since the prior examination. During 2002, MRAm closed its international branches and business written by those branches was either non-renewed or re-written by MRG. The Company wrote no significant international business during the current examination period.

Plan of Operation

During 2002 the Company underwent a corporate restructuring as new management sought to focus the Company's writings on the U.S. domestic market. The Company ceased writing international reinsurance and transferred the oversight of its healthcare reinsurance to its parent, MRG. The Company also created separate Strategic Business Units (SBU's) for the purpose of segregating its major underwriting operations. The five main SBU's are; Direct Treaty, Direct Facultative, Direct Broker, Risk Partners and Healthcare. In addition, the Company also reports premiums applicable to credit enhancement and surety business, international run-off and corporate centers.

In terms of gross premiums written the Company wrote $3.4 billion in 2005 of which $2.95 billion was assumed from non-affiliates. Of that amount, $1.43 billion was non-proportional assumed liability reinsurance from non-affiliates. The Company also assumed in excess of $452 million from two affiliates, AAIC and PESLIC.

Assumed Reinsurance

MRAm reported the following distribution of its assumed premiums for 2005:

Assumed from affiliates	$ 452,185,216
Assumed from non-affiliates	2,951,000,538
Total Assumed Premiums	$ 3,403,185,754

As noted above the Company operates through Strategic Business Units (SBU's). The Company reported the following assumed premiums written by SBU during 2005:

Direct Treaty	$ 1,010,490,878
Direct Facultative	706,071,488

Risk Partners	525,085,125
Broker Market	513,821,401
Healthcare	617,170,427
Credit & Surety	28,649,004
International Run-off	1,954,631
Corporate	(57,200)
Total Assumed Premiums	$ 3,403,185,754

MRAm's corporate philosophy is that risks underwritten by MRAm should have risk adequate premium, meaning that the appropriate premium for a given risk does not fluctuate simply because the reinsurance market is hard or soft. The Company appears to have applied this underwriting discipline over the past few years and it is expected to be part of their plan of operation in the years to come. MRAm is willing to restrain its underwriting when the market becomes soft and if premiums are significantly lower than what the Company has determined are adequate for the risks being assumed.

MRAm has appointed a Chief Risk Officer and heightened its awareness of risks assumed as a whole. With regards to underwriting risk management, the Company has centralized the direction of underwriting guidelines. The Chief Risk Officer is closely aligned with the Integrated Risk Management Division of MRG in Germany. MRG intends to further integrate MRAm's operations into MRG's operations. However, MRAm will continue to operate as a separate legal U.S. entity domiciled in the State of Delaware.

The Company's underwriting goals and limitations are developed, reviewed and approved at MRAm but are subsequently reviewed by MRG. MRG has a worldwide or group wide business plan of which MRAm is a significant part.

MRAm plans to continue increasing property lines of business, or short-tail lines of business, as a percentage of total business written. The Company's long term objective is to have its underwriting portfolio rebalanced to a short tail/long tail ratio of at least 50% / 50%, with the ultimate objective being 60% / 40%. MRAm is expanding its primary insurance operations through the use of the SBU's noted above.

The Company intends to build its presence in the broker market segment. MRAm estimates that the broker market generates approximately $45 billion in annual assumed premiums. The Company believes that expansion into a market with such a significant amount of capacity will further MRAm's ability to underwrite only the business it deems to meet its newer and more conservative underwriting standards.

A.M. Best Rating:

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the Company, MRAm was assigned an A.M. Best rating of A (Excellent) for the year ending 2005. Subsequent to the examination date, this rating was reaffirmed in December 2006. A.M. Best notes that the rating reflects the Company's solid returns and substantial improvement in risk adjusted capitalization. Further, A.M. Best noted that MRAm continues to make progress with regards to improvements in its operational and risk management controls.

CEDED REINSURANCE

For 2005, MRAm reported the following distribution of its ceded or retrocessional premiums:

To affiliated entities	$8,100,000,173
To non-affiliates	53,188,557
Total retrocessional premiums	$8,153,188,730

Of the retrocessional premiums ceded to affiliates, $8,097,358,297 or 99.9% were ceded to MRG. The size and extent of the support that MRG provides MRAm in the form of retrocessional coverage is enormous. The following salient points should be noted:

- Commencing in 2002, MRG has provided almost all the ceded reinsurance covering the Company's business. This coverage is referred as the "Corporate Retrocessional Program". As part of this program, which will be discussed more fully below, MRG provides the following specific coverage on several lines of business, catastrophe protection, variable quota share coverage and accident year stop loss coverage.
- Effective July 1, 2005, MRAm ceded to MRG via a Loss Portfolio Transfer (LPT) all carried loss and allocated loss adjustment expense reserves, net of the discount on workers' compensation related reserves, for accident years 2001 and prior. The reserves transferred to MRG for the LPT were $5,958,292,069; the premium for the LPT matched the reserves transferred and no initial surplus gain was recognized. MRG is responsible for the amount in excess of the $5,958,292,069 to an overall aggregate limit of $10,082,377,395. The LPT was approved by the Delaware Insurance Department. Going forward, the LPT affords MRAm tremendous advantages; the Company is effectively insulated from the continuing negative effects of asbestos and environmental claims that plague the entire property and casualty industry.
- At December 31, 2005, MRAm had ceded the following Loss and LAE reserves to MRG:

Case Reserves	$4,706,966,124
Incurred But Not Reported Claims	6,721,004,135
Total Loss and LAE cessions to MRG	$11,427,970,259

- For the LPT and the variable quota share coverage provided by MRG, MRAm retains or holds almost all the premiums. This procedure allows MRAm immediate access to funds for reimbursement of claims. The Company reported Funds Held by Company Under Reinsurance Treaties for MRG at December 31, 2005 of $10,238,828,784.

- For losses resulting from the terrorist attacks of September 11, 2001, MRG provided $1,000,000,000 in coverage in excess of the Company's initial gross reserves of $1,218,642,573. Under the treaty, MRAm is permitted to immediately bill MRG for any amounts exceeding the retention. This means that the Company receives amounts from MRG before it pays the ceding insurer.
- Every year since 2002, MRG has provided accident year stop loss coverage to the Company. For each of the years from 2002 to 2005, the MRG stop loss coverage attached at a level below the Company's budgeted loss ratio. Such a procedure insured that MRAm would realize a surplus gain from the accident year stop loss coverage.
- Having MRG provide almost all the ceded coverage for MRAm is part of a discernable plan of the Munich Reinsurance Group to write profitable business and keep a significant portion of the insurance risk "in-house." As an adjunct to this effort, MRAm has significantly increased its retentions prior to ceding business to MRG.

At the time of the 2002 examination, MRAm's retentions for treaty casualty, facultative casualty, treaty property and facultative property were $25 million per risk. For 2005, MRAm has no per risk excess of loss coverage for either treaty property business or any casualty business. For facultative property business, the Company's retention is $50 million per risk, per occurrence. The effect of these changes is that MRA is retaining a greater portion of the risks it writes.

It should also be noted that in addition to the corporate retrocessional program detailed below, MRAm cedes amounts to MRG under "Specific Retro" programs. These programs usually involve smaller amounts and result in 100% cessions to MRG. The Company normally assumes the business for the express purpose of ceding the business to the parent.

Summary of Coverage: Corporate Retrocessional Program

MRAm uses a layering system for its retrocessional reinsurance program. There are five layers: Stop Loss Protection, Corporate Quota Share Protection, Catastrophe Protection, Excess of Loss Protection, and Specific Surplus Share Protection

These layers are listed in the order in which they inure. This means the Specific Surplus Share Protection is deducted before the Excess of Loss Protection is calculated and all other reinsurance is deducted before the Accident Year Stop Loss is calculated.

Specific Surplus Share Protection

For two blocks of business, healthcare reinsurance, and global risk property reinsurance, MRAm cedes 90% of the business to MRG.

Excess of Loss

For facultative property business, MRG provides $40 million of coverage in excess of $50 million retention, each loss, each occurrence. The Company does not have excess of loss coverage for treaty property business or casualty business. MRG does provide clash coverage for two or more risks involved in an occurrence on an excess of loss basis for both casualty and all property business. The clash coverage provided by MRG is $50 million in excess of $50 million retention, each occurrence.

Catastrophe Protection

MRG provides property, both treaty and facultative catastrophe coverage of $400 million in excess of $200 million retention, each occurrence.

Corporate Quota Share Protection

Commencing in the last year of the previous examination period, MRG began supporting MRAm through a variable quota share program that is adjusted regularly. The following chart shows the extent of MRG's support:

Variable Quota Share Percent	Effective Date
54.7272%	December 31, 2001
25%	March 31, 2002
75%	June 30, 2002
60%	December 31, 2002
45%	January 1, 2004
75%	July 1, 2005
25%	December 31, 2005

All of the variable quota share coverages provide for a 32% provisional ceding commission to MRAm, that can increase up to 36.5% for good loss experience, but does not decrease due to poor experience. The reduction in the variable quota share percentage to 25% for 2006 is an indication that MRG expects MRAm to produce profitable business that won't need the level of parental support as in prior years.

Stop Loss Protection

For each of the years under examination, MRG provided accident year stop loss coverage for the Company. By structuring the stop loss coverage to activate or trigger at a level below MRAm's expected loss ratio, the Company was able to realize immediate surplus gains from the treaty. For example, for 2004, MRAm expected to report a 66.9% loss ratio for losses and loss adjustment expenses. However, the accident year stop loss treaty for 2004 called for MRG to provide coverage above a loss ratio of 47.66%. After recording the quarterly installments of the accident stop loss treaty for 2004, MRAm realized a gain to surplus of $110 million. For 2005, MRAm realized a more modest gain, $25 million, from the accident year stop loss treaty. MRG provided $410 million in coverage for 2004; that amount increased to $450 million for 2005. In

2006, the accident year stop loss coverage was restructured. MRG will provide $500 million in coverage to MRAm after a combined ratio, which includes losses, loss adjustment expenses and underwriting expenses, of 108% is triggered.

Cessions to Non-Related Insurers

As noted above, MRAm ceded $53,188,557 in premiums to non-related reinsurers in 2005. These premiums were just 0.7% of total ceded premiums for 2005 and demonstrate the extent of the Company's reliance on its parent for reinsurance support. A review of the premiums ceded to non-related reinsurers in 2005 shows most of the premiums were for specific retro programs whereby MRAm assumes business and concurrently cedes all or a portion of the coverage to a designated reinsurer. This reinsurer usually has a relationship with the insurer ceding business to MRAm. The Company also utilizes one non-related reinsurer to take a very minor participation in the corporate retrocessional program.

At December 31, 2005, MRAm reported total Reinsurance Recoverable of $1,754,697,000 from non-related reinsurers. These recoverables mainly derive from MRAm's retrocessional programs in place prior to the acquisition by MRG.

Approximately $1,409,094,000 of these recoverables is due from authorized reinsurers. The examination reviewed the collectibility of these balances, and noted no exceptions.

INTERCOMPANY AGREEMENTS

The Company had the following significant intercompany agreements and arrangements in effect as of December 31, 2005:

Consolidated Income Tax Allocation Agreement

The Company is a participant in a consolidated federal income tax return with MAHC and all of its subsidiaries including MRAm and two Delaware domestic insurance affiliates, AAIC and PESLIC. This arrangement is based upon a written tax allocation agreement dated December 31, 2005. This agreement amended and restated the previous agreement effective December 31, 2000. The agreement was approved by the Delaware Insurance Department.

Under this agreement, income tax expenses are computed on a separate company basis as if each affiliate was filing a separate tax return. Intercompany balances are settled on a quarterly basis. The terms of this agreement appear to be fair and equitable.

General Service and Administrative Agreements

MRAm is a party to various General Services and Administrative Agreements with certain affiliated companies. The two most significant agreements are between MRAm and AAIC, and MRAm and PESLIC. Both of these agreements, amended and restated as of April 1, 2004, were approved by the Delaware Insurance Department.

Under these agreements the Company provides administrative, claims handling and general operating services to AAIC and PESLIC. The agreement requires that charges and expenses incurred be allocated according to Delaware Insurance Laws and the NAIC Accounting Practices and Procedures. Settlement occurs within 30 days after the end of each fiscal quarter. The review of the intercompany balances and settlements noted timely settlements. The terms of these agreements appear to be fair and equitable.

Master Service Agreement

The Company is party to a Master Service Agreement with MRG. The agreement, which was effective February 15, 2003 and was approved by the Delaware Insurance Department, requires MRAm to provide information technology related services to MRG. The services provided under this agreement related to significant system integration between MRAm, AAIC, PESLIC and MRG in Germany. This is a multi-year project that is scheduled to go live in the first half of 2008. The goal of this project, known as project “GLORIA” is to streamline intercompany reporting to Munich Re Munich and to produce more useful data to management. Project GLORIA has required significant personnel resources from MRAm due to the fact the individuals from each operational area of the Company need to be involved as it will ultimately eliminate most of the current data and reporting systems utilized by MRAm. There is significant start up costs associated with this project. The examination has noted no concerns with regards to the proper accrual of related expenses.

Compensation under the agreement is based on time and material used along with a flat service fee. The terms of this agreement appear to be fair and equitable.

Investment Management Agreement

The Company is a party to an Investment Management Agreement with MEAG New York Corporation (MEAG-NY), an affiliated company. The agreement, which was effective August 1, 2001 and most recently amended on March 12, 2003, was approved by the Delaware Insurance Department. The agreement provides that MEAG-NY is to manage the investment and reinvestment of the Company’s invested assets held by State Street Bank, the Company’s most significant custodian.

MEAG-NY is required to adhere to strict investment guidelines, which are attached to the agreement and amended periodically whenever the Company amends its investment policy. The Company retains the sole authority to modify the investment guidelines. MEAG-NY is not permitted to trade assets that are designated by the Company as regulatory or trust deposits.

MEAG-NY does not act as custodian and does not physically hold any of the Company’s invested assets. Regular reviews of the performance and actions of MEAG-NY are performed and the terms of the agreement appear to be fair and equitable.

The Company is party to several additional intercompany investment management agreements all with affiliated advisors. The terms of these agreements are similar in nature to the agreement discussed above.

EXTERNAL AGREEMENTS

In addition to the above intercompany agreements, the Company had the following significant external agreements in effect at December 31, 2005:

Custodial Agreements

The Company has entered into several custodial agreements. The purpose of the agreements is for the safekeeping of the Company's invested assets. Though the custodians holding the majority of MRAm's invested assets contained the NAIC's Indemnification Clause, the agreements with State Street Bank GmbH, Royal Trust Corporation of Canada and Chase Manhattan Bank (now known as JP Morgan Chase), did not contain the required language.

The indemnification clause states that the custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the bank or trust company's custody occasioned by the negligence or dishonesty of the bank or trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction. In the event that there is a loss of the securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be replaced. As such;

It is recommended that the Company amend certain custodial agreements to include the NAIC's indemnification clause.

As part of the internal controls review the examination obtained SAS 70 Reports for all custodians utilized by the Company. The Company was unable to provide a SAS 70 Report applicable to JP Morgan Chase. As such;

It is recommended that the Company require that JP Morgan Chase provide access to a current SAS 70 Report on all future examinations or the assets held by JP Morgan Chase may be non-admitted by future examinations.

Investment Accounting Services Agreement

The Company entered into an Investment Accounting Services Agreement (IASA) effective June 1, 2000 with BlackRock Financial Management, Inc. (BlackRock). Per the IASA, BlackRock performs MRAm's investment accounting transaction entry along with asset reconciliations, income and dividend projections, foreign exchange calculations and review of all investment results. Further, BlackRock performs the monthly closing process and provides MRAm with a transaction journal and transaction ledger along with a Client Holding Report showing MRAm's investment portfolio sorted by CUSIP number and by investment classification. The Client Holding Report contains most investment information necessary for the Company to complete is statutory financial statements.

BlackRock provides MRAm with a SAS 70 Report annually and MRAm has the right to audit the BlackRock operations. The terms of the agreement appear to be fair and equitable.

LEGAL ACTIONS

The Company is a party to various litigation and claims, common to its business. Management believes that the outcome of such matters will not have a material adverse impact on the financial position or results of operations of the Company. In accordance with NAIC

Annual Statement Instructions, the Company has made adequate disclosure of its material contingent liabilities where required.

NAIC RATIOS

The NAIC Insurance Regulatory Information System (IRIS) did not designate the Company as requiring regulatory attention based on its Annual Statement filings for any of the three years under examination. In addition, the NAIC Examiner Team did not select for review any of the Annual Statements filed by the Company during the examination period.

The Company's NAIC IRIS Ratio tests were available for all years under review. During the examination period, several IRIS ratios produced "unusual values" as defined by the NAIC Examiner Team in each year under review. The following chart highlights the unusual values in the last year of the examination.

Year	Ratio*	Ratio Description	Usual Range of Values Over/Under		Company's Result
2005	3	Change in Net Writings	33	-33	-99
2005	8	Net Change in Adjusted Policyholders' Surplus	25	-10	-41

Following is a brief description of the underlying circumstances, which produced the "unusual values" in the Company's IRIS Ratios:

Ratio 3 – Change in Net Writings

This ratio measures the change in net premiums written from one calendar year to the next.

The unusual value was caused by the significant cessions to Munich Re Munich during 2005, primarily the Loss Portfolio Transfer agreement previously mentioned and discussed in detail in the Reinsurance section of this report. As part of the Loss Portfolio Transfer

Agreement, MRAm was required to cede a significant amount of premium for accident years 2001 and prior. As a result, net premiums written in 2005 amounted to ($4.75 billion). These premiums were not physically transferred. They have been retained by MRAm as Funds Held By Company Under Reinsurance Treaties and are reported as a liability on the 2005 Balance Sheet.

Ratio 8 – Net Change in Adjusted Policyholders' Surplus

This ratio measures the change in policyholders' surplus from one calendar year to the next, but excludes capital and surplus contributions received during the year.

This unusual value was also the result of the Loss Portfolio Transfer Agreement. The Company's policyholders' surplus only decreased 8.0%. However, this was due to surplus paid in amounting to $1.1 billion. As noted above, surplus paid in is excluded for the purposes of this calculation.

ACCOUNTS AND RECORDS

Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment, which is also shared by the Company's Delaware insurance affiliates, AAIC and PESLIC. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for Generally Accepted Accounting Principles. The Company's database was tested as part of Delaware examination procedures.

Independent Accountants

The Company's financial statements are audited each year by the firm of KPMG, LLP or "CPA", of New York, NY. The examiners reviewed the audited statutory financial statements for all years under review and noted that the CPA issued an unqualified opinion each year. The workpapers applicable to the CPA's 2005 audit were obtained and reviewed by the examination and utilized to the extent possible.

Information Systems

INS Services, Inc. reviewed the Company's responses to the Evaluation of Controls in Information Systems Questionnaire (Exhibit C) and performed tests of the systems. INS Services, Inc. analysis concluded that:

- the Company's responses to Exhibit C present fairly, in all material respects, the aspects of the Company's policies and procedures that may be relevant to their internal control structure,
- the control structure policies and procedures were suitably designed to achieve the control objectives implicit in the questionnaire, if those polices and procedures were complied with, and
- such policies and procedures have been placed in operation as of December 31, 2005.

Claim Files

The examination sampled the non-bordereau claim files. Though the data in all of the files provided was accurate, the Company was unable to locate two files. As such;

It is recommended that the Company review its diary system and other control procedures pertaining to the custody and security over claim files.

The examination reviewed the Company's closed claim files. Many of the Company's closed claim files have been converted to micro-fiche. In several instances, relevant claim information was not present on the micro-fiche claim files provided. As such;

It is recommended that the Company review its procedures for the copying of closed claim files to ensure that all relevant material pertaining to the applicable claims are captured on micro-fiche file.

Examination Cooperation

During the course of the examination several requests for information remained outstanding for a significant period of time. Specifically, the Company took a significant amount of time in providing certain documentation related to the examinations search for unrecorded liabilities along with assumed IBNR detail by ceding reinsurer. This documentation was requested under the authority of 18 Del.C. §5006. As the request information was not supplied in a timely manner, the following recommendation is made:

It is recommended that the Company provide all requested supporting documentation in a timely manner on all future financial examinations.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2005, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2005

Statement of Liabilities, Surplus and Other Funds, December 31, 2005

Statement of Income, December 31, 2005

Capital and Surplus Account, December 31, 2005

Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2005

	Assets	Non-admitted Assets	Net Admitted Assets	Notes
Bonds	$11,224,241,869	$ 23,443,071	$11,200,798,798	1
Stocks				
Preferred stocks	50,747,127		50,747,127	
Common stocks	729,013,683		729,013,683	
Real Estate				
Properties occupied by the Company	75,150,175		75,150,175	
Cash (including cash equivalents and short-term investments	1,783,029,057		1,783,029,057	
Other invested assets	300,991,185		300,991,185	
Receivables for securities	1,180,881,631		1,180,881,631	
Subtotals, cash and invested assets	**$15,344,054,727**	**$ 23,443,071**	**$15,320,611,656**	
Investment income due and accrued	114,760,161		114,760,161	
Premiums and considerations				
Uncollected premiums in the course of collection	166,698,410		166,698,410	
Deferred premiums and installments not yet due	521,341,438		521,341,438	
Accrued retrospective premium	26,419,676		26,419,676	
Reinsurance				
Amounts recoverable from reinsurers	72,654,787		72,654,787	
Funds held by or deposited with reinsured companies	267,091,832	4,589,213	262,502,619	
Other amounts receivable under reinsurance contracts	187,570,385		187,570,385	2
Current federal income tax recoverable	3,578,752		3,578,752	
Net deferred tax asset	1,818,791,730	1,542,806,050	275,985,680	
EDP equipment	30,936,605	25,395,010	5,541,595	
Furniture and equipment	9,314,331	9,314,331	-	
Receivable from affiliates	17,004,735	825,055	16,179,680	
Aggregate write-ins for other than invested assets				
Contingent commissions	93,552,097		93,552,097	
Deposit asset	119,863,888		119,863,888	
Deposits in pools and associations	4,826,949	4,826,949	-	
Overflow write-ins	10,850,096	7,139,312	3,710,784	
Total Assets	**$18,809,310,599**	**$1,618,338,991**	**$17,190,971,608**	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2005

		Notes
Losses	$ 1,534,603,411	3
Reinsurance payable on paid losses and LAE	527,242,117	
Loss adjustment expenses	270,333,381	
Other expenses	153,835,813	
Taxes, licenses and fees	30	
Unearned premiums	667,080,608	
Ceded reinsurance premiums payable	64,265,876	2
Funds held by Company under reinsurance treaties	10,294,534,263	4
Amounts withheld by Company for account of others	23,102,928	
Provision for reinsurance	5,470,431	
Payable to affiliates	9,401,740	
Payable for securities	514,929,296	
Aggregate write-ins for liabilities		
Loss portfolio reinsurance reserves ceded	(191,332,671)	
Deposit liability	213,269,956	
Financial guaranty contingency reserve	5,096,351	
Overflow write-ins	57,754,004	
Total Liabilities	**$ 14,149,587,534**	
Aggregate write-ins for special surplus funds		
Special surplus from loss portfolio reinsurance account	80,877,671	
Common capital stock	8,235,771	
Gross paid in and contributed surplus	4,946,998,348	
Unassigned funds (surplus)	(1,994,727,716)	
Surplus as regards policyholders	**$ 3,041,384,074**	
Total Liabilities, Surplus and Other Funds	**$17,190,971,608**	

Underwriting and Investment Exhibit - Statement of Income
Capital & Surplus
As of December 31, 2005

UNDERWRITING INCOME	
Premiums earned	($4,779,533,806)
DEDUCTIONS	
Losses incurred	(3,711,225,937)
Loss expenses incurred	32,932,605
Other underwriting expenses incurred	324,886,722
Total underwriting deductions	($3,353,406,610)
Net underwriting gain or (loss)	($1,426,127,196)
INVESTMENT INCOME	
Net investment income earned	575,769,415
Net realized capital gains or (losses)	(18,355,652)
Net investment gain or (loss)	$557,413,763
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	(51,225,516)
Aggregate write-ins for miscellaneous income	(474,502,016)
Total other income	($525,727,532)
Net income before dividends to policyholders and before federal income taxes	($1,394,440,965)
Dividends to policyholders	0
Net income after dividends to policyholders but before federal income taxes	($1,394,440,965)
Federal income taxes incurred	6,569,746
Net income	($1,401,010,711)

CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31, 2004	$3,304,677,997
Net income	($1,401,010,711)
Change in net unrealized capital gains or (losses)	(924,940)
Change in net unrealized foreign exchange capital gain (loss)	23,449,315
Change in net deferred income tax	456,439,429
Change in non-admitted assets	(451,937,856)
Change in provision for reinsurance	874,462
Surplus adjustments: Paid in	1,108,000,000
Aggregate write-ins for gains and losses in surplus	1,816,379
Change in surplus as regards policyholders for the year	($263,293,922)
Surplus as regards policyholders, December 31, 2005	$3,041,384,075

SCHEDULE OF EXAMINATION ADJUSTSMENTS

Description	Per Examination	Per Company	Surplus Increase (Decrease)
Assets:			
Other Amounts Receivable Under Reinsurance Contracts	$187,570,385	$157,445,324	$30,125,061
Adjusted Admitted Assets	$187,570,385	$157,445,324	$ 30,125,061
Liabilities and Surplus:			
Ceded Reinsurance Premiums Payable	64,265,876	34,140,815	(30,125,061)
Adjusted Liabilities	$64,265,876	$34,140,815	($30,125,061)
Net adjustment to policyholders' surplus			$0

NOTES TO FINANCIAL STATEMENTS

(1) Bonds $11,200,798,798

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

An evaluation of the Company's bond portfolio noted that ninety-one percent (91%) of the portfolio consists of bonds with an NAIC rating of 1 or 2. With the exception of bonds held for statutory purposes, investments are held by State Street Bank, JP Morgan Chase and Royal Trust Corporation of Canada, under separate custodial agreements. Refer to the section "External Agreements" of this Report of Examination, under the caption "Custodial Agreement" for additional comments regarding these custodial agreements.

A review of corporate records indicated that the Board of Directors has approved all of the Company's bond investment transactions made during the examination period in accordance with 18 Del.C. §1304.

(2) Other Amounts Receivable Under Reinsurance Contracts	$187,570,385
Ceded Reinsurance Premiums Payable	$ 64,265,876

The above-captioned amounts are both $30,125,061 more than what was reported by the Company in its Annual Statement. The increase in both of these accounts is due to a reclassification by the examination.

MRAm reports a debit or receivable balance from National Indemnity Company on Schedule F. A portion of this receivable, $30,125,061, represents excess interest on premiums paid to National Indemnity Company. The funds held associated with the National Indemnity Company agreement accumulate interest over time. Any excess interest will eventually be returned to MRAm when the contract matures.

MRAm entered into a three part contract with National Indemnity Company, commencing in 1989. The third stage, Coverage C, was recorded as a Loss Portfolio Transfer. All of the National Indemnity Company coverages are "last dollar" stop loss coverages, meaning that National Indemnity Company will compensate MRAm for the final amounts paid for any accident year. With long tail business included in the coverage, MRA will not "close out" accident years from the early 1990s until at least 2030. This type of coverage is acceptable as the contract was written and effective prior to January 1, 1994. This type of contract would not be considered reinsurance under the current accounting practices and procedures manual.

The Company is currently reporting a future recoverable of excess interest as a debit balance in the “Ceded Reinsurance Premiums Payable” account, which is not correct. The excess interest receivable should not net against “Ceded Reinsurance Premiums Payable,” but instead should be recorded as “Other Amounts Receivable Under Reinsurance Contracts.” As such;

It is recommended the Company cease the practice of reporting future recovery of excess interest on the National Indemnity Company contract as a debit balance netted in the Ceded Reinsurance Premiums Payable account. MRAm should report any valid interest amounts recoverable in the "Other Amounts Receivable Under Reinsurance Contracts" account of the Annual Statement.

(3) Losses	$1,534,603,411
Loss Adjustment Expenses	$ 270,333,381

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The balance reported by the Company was comprised of the following:

Losses	
Reported Losses (Case)	
Direct	$ 456,169,996
Reinsurance Assumed	5,771,531,448
Reinsurance Ceded	(5,387,656,826)
Net Reported Losses	$ 840,044,618
Incurred But Not Reported (IBNR)	
Direct	$ 293,213,127
Reinsurance Assumed	6,877,037,587
Reinsurance Ceded	(6,475,691,921)
Net IBNR	$ 694,558,793
Net Losses Unpaid	$1,534,603,411
Loss Adjustment Expenses (LAE)	
Allocated LAE	$ 107,999,381
Unallocated LAE	162,334,000
Total LAE	$ 270,333,381

The examination retained the firm of INS Consultants, Inc. (INS or Consulting Actuary) to review the Company's stated reserves. The Consulting Actuary was provided with the Company's statement of actuarial opinion and an actuarial report as the supporting documentation of the actuarial opinion with loss and loss adjustment expense reserves evaluated as of December 31, 2005. In addition, INS was provided with other reports, schedules, exhibits and relevant information as requested.

The Consulting Actuary's review of loss and ALAE (allocated loss adjustment expenses) reserves consisted of separately analyzing the property and casualty Company's book of business on a gross and net basis. In addition, for unallocated loss adjustment expense (ULAE), the Consulting Actuary reviewed the methodology employed by the Company's actuaries. INS accepted the methodology and factor selections utilized by the Company's actuaries.

Upon completion of their review, the Consulting Actuary concluded that the Company's net loss and LAE reserve was reasonable.

In conjunction with the actuarial review, the examination team was tasked with verifying paid claims data. Based on the examination team's review, it was ascertained that the data was accurate and complete.

(4) Funds Held By Company Under Reinsurance Treaties $10,294,534,263

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Company's Funds Held By Company Under Reinsurance Treaties liability grew significantly during the period under examination, from $3.1 billion at December 31, 2002 to $10.3 billion at December 31, 2005. Over $10.2 billion represents funds held for MRAm's parent, MRG. There were two primary contracts responsible for most of the $10.2 billion held for MRG:

The Loss Portfolio Transfer (LPT) which occurred in 2005 was the main reason for the increase in the Funds Held By Company Under Reinsurance Treaties balance during the exam period. The examination confirmed with MRG balances related to the LPT in excess of $5.5 billion as of December 31, 2005.

The other significant piece of the reported Funds Held By Company Under Reinsurance Treaties liability pertains to the variable quota share agreement with MRG that has been in effect for several years. The examination confirmed with MRG balances related to the variable quota share in excess of $3.8 billion as of December 31, 2005.

Both the LPT agreement and the variable quota share agreement are discussed in detail in the Ceded Reinsurance section of this Report of Examination.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regards to prior examination report comments and recommendations. Based on that review it has been determined that the Company has complied with the prior examination report comments and recommendations.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the MRAm Board of Directors appoint an Executive Committee of the Board of Directors in accordance with the bylaws, or amend the bylaws to remove this requirement. Any actions of the directors acting as an Executive Committee should be documented in the minutes (Management and Control). (p7)

2. It is recommended that the Company amend certain custodial agreements to include the NAIC's indemnification clause (External Agreements). (p24)

3. It is recommended that the Company require that JP Morgan Chase provide access to a current SAS 70 Report on all future examinations or the assets held by JP Morgan Chase may be non-admitted by future examinations (External Agreements). (p25)

4. It is recommended that the Company review its diary system and other control procedures pertaining to the custody and security over claims files (Accounts and Records). (p28)

5. It is recommended that the Company review its procedures for the copying of closed claim files to ensure that all relevant material pertaining to the applicable claims are captured on the micro-fiche file (Accounts and Records). (p28)

6. It is recommended that the Company provide all requested supporting documentation in a timely manner on all future financial examinations (Accounts and Records). (p29)

7. It is recommended the Company cease the practice of reporting future recovery of excess interest on the National Indemnity Company contract as a debit balance netted in the Ceded Reinsurance Premiums Payable account. MRAm should report any valid interest amounts recoverable in the Other Amounts Receivable Under Reinsurance Contracts account of the Annual Statement (Notes to Financial Statements). (p35)

SUMMARY COMMENTS

1. Surplus Paid In

During the examination period the Company received the following surplus paid in from MRG and MRAC, all in the form of cash:

2003	$ 350,000,000
2004	-0-
2005	1,108,000,000
Total	$ 1,458,000,000

2. Plan of Operation

During 2002 the Company underwent a corporate restructuring as new management sought to focus the Company's writings on the U.S. domestic market. The Company ceased writing international reinsurance and transferred the oversight for healthcare reinsurance to its parent, MRG. The Company also created separate Strategic Business Units (SBU's) for the purpose of segregating its major underwriting operations. The five main SBU’s are Direct Treaty, Direct Facultative, Direct Broker, Risk Partners and Healthcare. In addition, the Company also reports premiums applicable to credit and surety business, international run-off and corporate centers.

3. Assumed Reinsurance: Risk Adequate Premium

MRAm has become more conservative during the examination period in terms of the business being solicited and underwritten. The corporate philosophy is that risks underwritten by MRAm should have risk adequate premium, meaning that the appropriate premium for a given risk does not fluctuate simply because the reinsurance market is hard or soft. MRAm is willing to restrain its underwriting when the market becomes soft and if premiums are significantly lower than what the Company has determined are adequate for the risks being assumed.

The Company has centralized the direction of underwriting guidelines. The Chief Risk Officer is closely aligned with the Integrated Risk Management Division of MRG in Germany. The Company's underwriting goals and limitations are developed, reviewed and approved at MRAm, but are subsequently reviewed by MRG. MRG has a worldwide or group wide business plan of which MRAm is a significant part. The Company intends to continue to integrate itself into MRG's operations, though they continue to operate as a separate legal entity domiciled in the State of Delaware.

4. Ceded Reinsurance: Corporate Retrocessional Program

Commencing in 2002, MRG has provided almost all the ceded reinsurance covering the Company’s business. In 2005, 99.3% or $8.1 billion of the Company’s ceded premiums were ceded to affiliates, virtually all to MRG. This coverage is referred as the “Corporate Retrocessional Program”. As part of this program, MRG provides the following specific coverage on several lines of business; catastrophe protection, variable quota share coverage and accident year stop loss coverage.

5. Ceded Reinsurance: Loss Portfolio Transfer

Effective July 1, 2005, MRAm ceded to MRG via a Loss Portfolio Transfer (LPT) most carried loss and allocated loss adjustment expense reserves, net of the discount on workers' compensation related reserves, for accident years 2001 and prior. The reserves transferred to MRG for the LPT were \$5,958,292,069; the premium for the LPT matched the reserves transferred and no initial surplus gain was recognized. MRG is responsible for the amount in excess of the \$5,958,292,069 to an overall aggregate limit of \$10,082,377,395. The LPT was approved by the Delaware Insurance Department. Going forward, the LPT affords MRAm tremendous advantages; the Company is effectively insulated from the continuing negative effects of asbestos and environmental claims that plague the entire property and casualty industry.

6. Examination Reclassification

The examination did not make any net adjustments to policyholder's surplus. However, a reclassification in the amount of \$30,125,061 was made.

The Company is currently reporting a future recoverable of excess interest in the amount of \$30,125,061 as a debit balance in the "Ceded Reinsurance Premiums Payable" account, which is not correct. The excess interest receivable should not net against "Ceded Reinsurance Premiums Payable" but instead should be recorded as "Other Amounts Receivable Under Reinsurance Contracts." A recommendation was made.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31 2002	December 31, 2005	Increase
Assets	$14,342,065,859	$17,190,971,608	$2,848,905,749
Liabilities	$12,112,033,518	$14,149,587,534	$2,037,554,016
Surplus as Regards Policyholders'	$2,230,032,341	$3,041,384,074	$811,351,733

In addition to the undersigned, Albert Piccoli, CFE, Joe Rome, CFE, Paul Ellis, CPA, CFE, John P. White, Jim Russo, CFE, and Legh Cathey, CFE participated in the examination. James J. Blair, Jr., CPA, CFE served as the examination supervisor. The assistance of Gene Thompson, ACAS, MAAA of the actuarial consulting firm, INS Consultants, Inc. is acknowledged along with the information systems consulting firm of INS Services, Inc.

Respectfully submitted,

Gregg S. Bealuk

Gregg S. Bealuk, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

2006 Net Income

The Company reported net income of $615.7 million. Income is net of a $953 million gross reserve charge that was 100% ceded to MRG under the 2005 Loss Portfolio Transfer Agreement.

Name Change

On September 5, 2006 the Company’s name was legally changed from American Re-Insurance Company to Munich Reinsurance America, Inc.

Branch Offices

At the examination date the Company maintained 12 domestic branch offices: Atlanta, Boston, Chicago, Columbus, Dallas, Hartford, Kansas City, Los Angeles, New York, Philadelphia, San Francisco and Seattle. These branch offices primarily write facultative business. During the fourth quarter 2006, the Company closed four of these branch offices in order to reduce duplication of costs and to streamline the Company's branch operations. The offices eliminated were Seattle, Dallas, Boston, and Los Angeles.